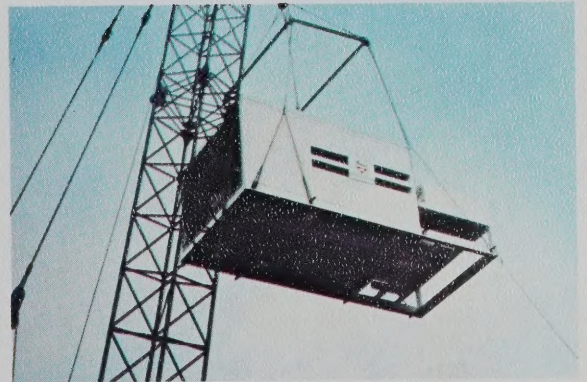




ENGINEERING



Annual
Report
1973

CONTENTS

Financial Highlights.....	This page
President's Report	1, 2, 3
Financial Statements & Notes	4, 5, 6, 7
Directors, Officers, Auditors & Agents	8
Six Year Summary	9

Beaver



ENGINEERING

FINANCIAL HIGHLIGHTS

	<u>1973</u>	<u>1972</u>
Sales	\$ 13,501,255	\$ 9,965,283
Earnings before Taxes	940,485	640,880
Provision for Taxes	473,186	293,634
Net Earnings after Taxes	467,299	347,246
Earnings per Share	.78	.58
Dividends per Share	.14	.14
Orders Booked	13,710,010	10,578,481
Backlog as of December 31	3,120,436	2,914,910
Capital Expenditures Net	143,562	275,774
Depreciation and Amortization	134,616	132,009
Working Capital	1,739,826	1,461,942
Receivables	2,344,533	1,923,580
Inventory	719,780	664,966
Facilities — Net	1,108,791	1,069,275
Shareholders' Equity	2,834,551	2,451,553
Shares Outstanding December 31	602,150	602,150
Equity per Share	4.71	4.07

Cover Illustrations

Beaver's Engineering Department — Beaver fabricated equipment being installed

Some of Beaver's fleet of 125 service vehicles.

Checking part of Beaver's Wholesale Division's pipe inventory



ENGINEERING

HEAD OFFICE: 70 QUEEN ELIZABETH BLVD.
TORONTO, ONTARIO M8Z 1M4 (416)255-1331

April 2, 1974

Mr. Ian Carman
Business and Financial Editor
Globe and Mail
140 King Street West
TORONTO, Ontario

Dear Mr. Carman:

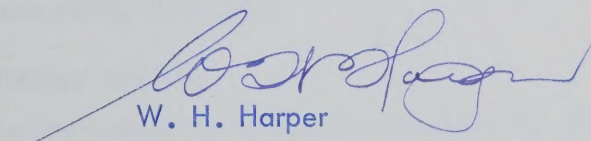
The attached Annual Report for the fiscal year 1973 is being released today to you as a member of the financial community in accordance with the regulations of the Toronto Stock Exchange and the governing Securities Commissions.

A copy of the report will be mailed to the Shareholders on or before April 4th, 1974.

We are also pleased to enclose a copy of our Beaver Bulletin which is referred to in the report.


Yours very truly,

BEAVER ENGINEERING LIMITED



W. H. Harper
President

encls.



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Audit Committee meeting
with the auditors. [L to R]
A.S. Dover, W.L. Rootham,
L.L. Bell, A.J. Dilworth, Partner,
Touche Ross & Co., W.H. Harper, President,
W.M. Brace, Partner, Touche Ross & Co.



President's Report

This 20th year has been the best year for your company, Beaver Engineering Limited. A few of the important operating records for the fiscal year ended December 31, 1973 are compared with the prior year and the percentage increase is shown.

(.000's omitted)	1973	1972	Increase
Sales	\$ 13,501	\$ 9,965	35.5%
Net Earnings before Taxes	940	641	46.6%
Provision for Income Taxes	473	294	60.9%
Net Earnings after Taxes	467	347	34.6%
Net Earnings per Share	78c	58c	34.6%
Orders Booked during the Period	13,710	10,578	29.6%

Some of the very important investments of both time and money made in earlier periods, referred to in our report one year ago, contributed to increased earnings during 1973.

WORKING CAPITAL

The working capital of the company as of December 31, 1973 was \$1,739,826 compared with \$1,461,942 a year earlier. The ratio of current assets to current liabilities was 2 to 1.

FIXED ASSETS

During 1973, Beaver expended \$143,562 for new physical assets including machinery, equipment, vehicles and tools. The allowance for depreciation and amortization for the period was \$134,616.

The fixed assets of the company have been professionally appraised primarily for insurance purposes. A review of residual values has led to the conclusion that for reporting purposes, we should provide for depreciation for each class of asset at a rate that would more realistically reflect useful engineered life. Previously, depreciation was based on the maximum capital cost allowance permitted under the Income Tax Act.

ACQUISITION

Effective June 30, 1973, the company purchased for cash, all of the

shares of Refrigeration Certified Maintenance Company Limited, a company engaged largely in the service and maintenance contract field. Edwin F. Stanger was the founder and only President of 'R C M' and he has now entered into a management contract with Beaver.

STILL GROWING AT 20

During 1973 Beaver passed its 20th birthday. In each and every year since its inception, Beaver has earned a profit. The fiscal year ended December 31, 1973 set operating records.

Profit, extremely important as it is, is merely the numerical measure of corporate progress. Some highlights of the 20 years of Beaver's growth not shown in the financial statements are:

from 1 to 100 refrigeration mechanics
from 2 to 20 professional engineers
from 3 to 300 employees
from 0 to 7,000 customers
from 1,100 to 111,000 sq. ft. of industrial space

Only part of a company's worth is represented by shareholders' equity. The worth of a corporation is largely a reflection of the values, dedication, determination and philosophy of the people involved in its accomplishments.

We work together at Beaver, to serve our customers to the best of our ability, on the premise that — "No one will ever regret dealing with Beaver." Naturally, the company must produce a profit to ensure continuity of the enterprise, gratifying employment for its people and a rewarding investment for its shareholders.

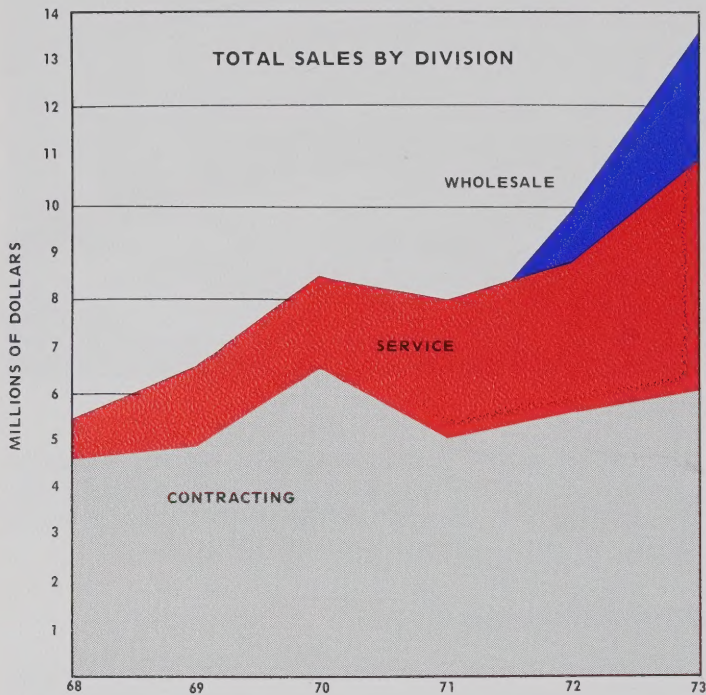
To be successful, we must know our strengths, continuously upgrade our skills, and blend the two to serve our community in the most acceptable fashion.

Always striving to be the leader has inevitably led to corporate progress. It is much more difficult to lead rather than follow, to innovate rather than copy, to create rather than imitate. Today, Beaver is the most followed, copied, imitated company in our business.

We are still growing after 20 years, and will continue to do so. However, this growth must always confirm our principles by embracing true quality and it must afford pride for our people in their individual performance.

OPERATIONS

For some time, your company has been pursuing a specific course to solidify the repetitive nature of the majority of its business. We have concentrated on developing a service business that caters to repetitive buyers with growth plans; a wholesale operation that supplies pipe,



valves and fittings to industry; and a "design-build" contracting facility to serve customers who care about having something done better than the lowest acceptable standard. Measuring its success are the 1973 results and the graphic progress charts included in this report.

Design Installation Division

Beaver has been in the contracting business for over 20 years. We have developed very exacting engineering and estimating data. With our competent field superintendents and our concerned master craftsmen, we fabricate unique systems to precise standards to suit exact requirements of discriminating customers — and on time.

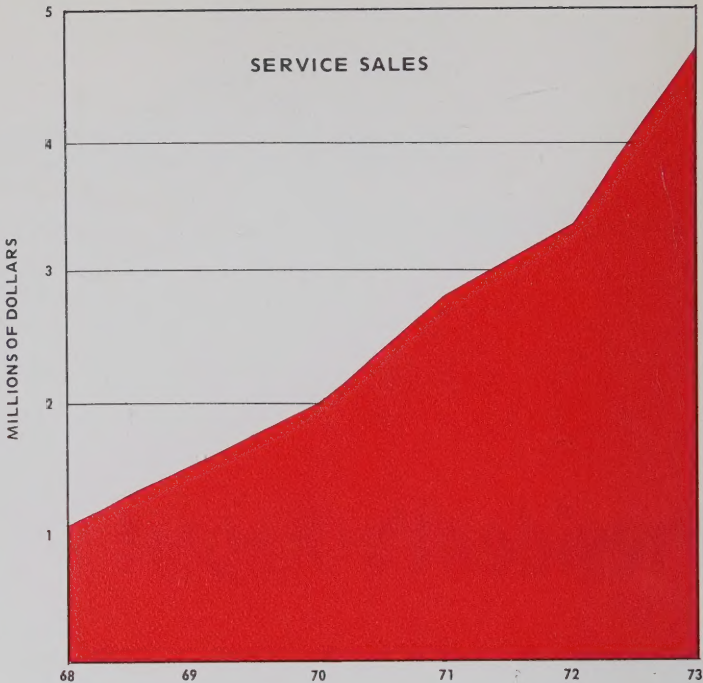
There is a difference in systems, engineering designs, installation prowess, and service back-up. There is a difference in attitude.

We are recognized and accepted as being the best. Our performance has to be best. It is not easy, but it is easier when you establish unequivocally, once and for all, the calibre of work you will perform.

Service Division

We are extremely proud of our service operations. To feel this way, it is essential that we think highly of every person in our employ. We have always hired the best, and we have developed through apprenticeship programmes, more new mechanics than any other company in our industry.

This year, we have added a full time staff technician whose responsibility is to guide and direct the training programmes which are continually underway at Beaver. In addition to apprentice training, refresher schools are held to teach new techniques and to introduce new products with their different service considerations.



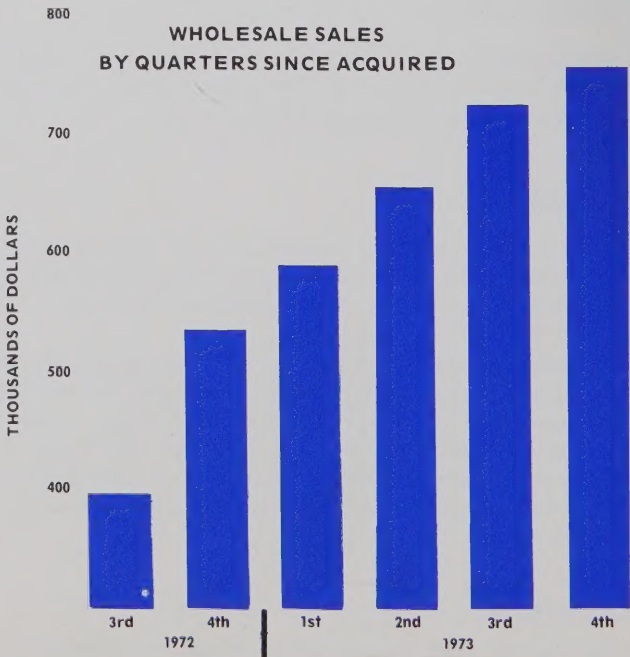
Naturally, the best people want to work with the best company. That is why our service organization is second to none. That too is why our service business is nearly 40% of Beaver's business and growing quickly.

Wholesale Division

Beaver first moved into the industrial wholesale business in May of 1972. We were fortunate to be able to start with a seasoned team of highly qualified people. The addition of Earle J. Kelley as Manager in July of 1972 provided the leadership for this division. Its record of continuous progress in sales every quarter is shown on the chart below.

Our wholesale sales in 1973 were over \$2,700,000 (not counting internal sales to other divisions).

Beaver is dedicated to broadening the line of products and services offered to its industrial customers.



PEOPLE

A.S. Dover, retired General Manager of the Paper Mill Division of Continental Can Company of Canada Limited was elected a member of the Board of Directors.

G.E. Blair, P.Eng. and Vice President since 1971 has had his responsibilities broadened to include our gas services operations as well as RCM.

M.A. Williamson, P.Eng., previously our Marketing Manager, was appointed a Vice President as of January 1, 1974 with responsibility for the sales, design, engineering, processing and field installation of all of our contracting work.

W.L.B. Watts, C.G.A., our Contract Manager was appointed Treasurer, also as of January 1, 1974.

D.A. Holman, C.A. joined Beaver in September and as Manager - Administration, is responsible for our accounting, electronic data processing and office services.

To expand internal communications, we have published the "Beaver Bulletin". The second issue is now released.

The Salaried Employee Benefit Package was completely reviewed, improved and expanded this year. Our personnel administration policy calls for us to be a leader in these areas in our industry.

Almost all of our hourly paid employees are a part of the highly skilled construction trades. We have industry agreements covering refrigeration workers, pipe fitters, sheet metal workers and electricians. These agreements in Ontario continue through until April 30, 1975.

ENERGY CRISIS

At the moment, the energy crisis is having no apparent bearing on our business. We are attempting to minimize our own consumption of energy in all possible ways without reducing productivity or employment.

Should the shortage become more acute, we do not believe that it would have an immediate adverse effect on our business. Purchasers of new systems and equipment will become more discriminating, more concerned about quality and operating efficiency, factors which always have been of prime consideration at Beaver. Further, with increased energy costs, more customers will insist upon our competent service to upgrade equipment and to ensure its maximum operating performance.

DIVIDENDS

Our fifth and sixth dividends in the amount of 7c each were declared and paid (14c per share) in 1973.

OUTLOOK

As we look forward into 1974, we have a comfortable backlog of contracting work; an allocation of steel pipe that will allow an increase in wholesale sales; the largest staff of the most qualified service technicians in the industry, fitted with the best equipment.

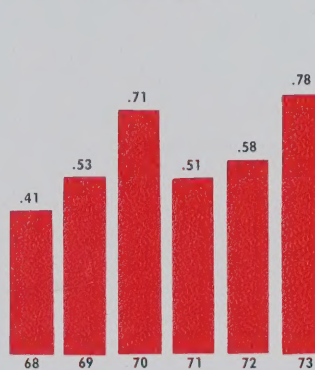
Very important too, we have the confidence of our customers which we have earned over the last 20 years, and which we propose to continue to zealously protect in 1974.

Beaver has always been concerned about supplier relations too. We pay our bills according to our purchase terms. This integrity, financial

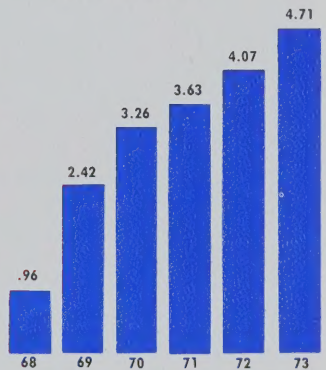
strength and our potential volume of purchases leaves us confident that in these periods of short supply and extended deliveries, we will receive the favorable considerations we feel we have earned.

General business conditions will likely continue to reflect the buoyancy that exists in the economy at the moment. It appears as if interest rates will drop thereby accelerating some projects. There will be shortages of materials and skilled manpower. However, as long as the basic economy remains stable, we predict further progress in 1974 in both sales and earnings.

**EARNINGS PER SHARE
IN DOLLARS**



**EQUITY PER SHARE
IN DOLLARS**



APPRECIATION

Your directors and officers wish me to express their appreciation for the contributions made by our dedicated employees, the service of our suppliers and the confidence of our valued customers during 1973.

Obviously, there are a great many shareholders who have maintained their confident stand or increased their involvement. For this, we are very grateful.

For the officers and employees of the company who have worked so diligently to produce these results, there is some disappointment that the market price per share does not more directly reflect their accomplishments. Some of the corporate progress reported during the five year period from January 1, 1969 through to December 31, 1973 is outlined below:

Shareholders' equity has increased by	\$2,255,294
Total corporate net earnings have been	1,869,628
Income taxes paid or payable total	1,847,431
Dividends paid out to shareholders	252,878
Investment in fixed assets increased by	1,391,524
Depreciation provided totals	477,520
Book value increased by	\$3.75 per share *
Dividends paid out since Jan. 1971	\$0.42 per share *
Depreciation provided	\$0.79 per share *

* Based on 602,150 shares:

Finally, I would like to thank the directors of Beaver Engineering Limited for their valued support and guidance.



March 8, 1974.

W.H. Harper, President

CONSOLIDATED STATEMENT OF EARNINGS FOR THE YEAR ENDED DECEMBER 31, 1973

(with comparative figures for 1972)

	<u>1973</u>	<u>1972</u>
Sales	\$ 13,501,255	\$ 9,965,283
Cost of sales, selling, administrative and other expenses, exclusive of the items listed below	12,416,382	9,182,005
Depreciation and amortization	134,616	132,009
Interest on long-term debt (Note 4)	<u>9,772</u>	<u>10,389</u>
	12,560,770	9,324,403
Earnings for the year before taxes	940,485	640,880
Provision for income taxes	<u>473,186</u>	<u>293,634</u>
Net earnings for the year	\$ <u>467,299</u>	\$ <u>347,246</u>
Earnings per share	\$ <u>0.78</u>	\$ <u>0.58</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS FOR THE YEAR ENDED DECEMBER 31, 1973

(with comparative figures for 1972)

	<u>1973</u>	<u>1972</u>
Retained earnings, beginning of year	\$ 1,850,877	\$ 1,587,928
Net earnings for the year	<u>467,299</u>	<u>347,246</u>
	2,318,176	1,935,174
Less: Dividends	<u>84,301</u>	<u>84,297</u>
Retained earnings, end of year	\$ <u>2,233,875</u>	\$ <u>1,850,877</u>

ERING

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at December 31, 1973

(with comparative figures for 1972)

	1973	1972
Current Assets		
Accounts receivable	\$ 2,344,533	\$ 1,923,580
Inventory at the lower of cost and net realizable value	719,780	664,966
Costs and estimated earnings in excess of billings on uncompleted contracts	420,090	392,213
Prepaid expenses	6,326	14,191
	<u>3,490,729</u>	<u>2,994,950</u>
Deduct:		
Current Liabilities		
Bank indebtedness — secured	20,406	150,721
Accounts payable and accrued charges	1,119,029	1,073,734
Income taxes	344,679	96,181
Allowance for warranties	53,374	41,328
Deferred income on service contracts	223,415	171,044
	<u>1,750,903</u>	<u>1,533,008</u>
Working Capital	<u>1,739,826</u>	<u>1,461,942</u>
Add:		
Fixed assets at cost, less depreciation (Note 3)	1,108,791	1,069,275
Deferred charges	24,000	23,149
Goodwill and other intangibles, at cost (Note 2)	120,954	66,954
Total Investment	<u>2,993,571</u>	<u>2,621,320</u>
Deduct:		
Long-term debt (Note 4)	159,020	169,767
Shareholders' Equity	<u>\$ 2,834,551</u>	<u>\$ 2,451,553</u>
Represented by:		
Share capital (Note 5)		
Authorized		
1,200,000 shares without par value		
Issued and fully paid		
602,150 shares without par value	\$ 600,676	\$ 600,676
Retained earnings	2,233,875	1,850,877
	<u>\$ 2,834,551</u>	<u>\$ 2,451,553</u>

ON BEHALF OF THE BOARD

W.H. Harper, Director; J.L. Attwood, Director



ENGINEERING

BEAVER ENGINEERING LIMITED AND SUBSIDIARIES CONSOLIDATED STATEMENT OF CHANGES IN WORKING CAPITAL FOR THE YEAR ENDED DECEMBER 31, 1973

(with comparative figures for 1972)

	<u>1973</u>	<u>1972</u>
Source of Working Capital		
From operations		
Net earnings for the year	\$ 467,299	\$ 347,246
Depreciation and amortization	<u>134,616</u>	<u>132,009</u>
	601,915	479,255
Issue of share capital	<u>—</u>	<u>290</u>
	<u>601,915</u>	<u>479,545</u>
Use of Working Capital		
Purchase of fixed assets — net	143,562	275,774
Debt repayment	10,747	10,131
Investments in subsidiaries (Note 2)	61,421	—
Deferred charges	24,000	—
Dividends	<u>84,301</u>	<u>84,297</u>
	<u>324,031</u>	<u>370,202</u>
Increase in Working Capital	277,884	109,343
Working Capital at beginning of year	<u>1,461,942</u>	<u>1,352,599</u>
Working Capital at end of year	\$ <u>1,739,826</u>	\$ <u>1,461,942</u>

AUDITORS' REPORT

The Shareholders,
BEAVER ENGINEERING LIMITED.

We have examined the consolidated statement of financial position of Beaver Engineering Limited and its subsidiaries as at December 31, 1973 and the consolidated statements of earnings, retained earnings and changes in working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and use of their working capital for the year then ended, in accordance with generally accepted accounting principles applied (except for the provision for depreciation referred to in Note 3) on a basis consistent with that of the preceding year.

Toronto, Ontario,
February 18, 1974.

TOUCHE ROSS & CO.
Chartered Accountants.



ENGINEERING

BEAVER ENGINEERING LIMITED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1973

1. Basis of Consolidation

The consolidated financial statements include the accounts for the year of all subsidiary companies with the exception of Refrigeration Certified Maintenance Company Limited which is included from June 30, 1973, the effective date of purchase.

2. Acquisition of Subsidiary

The Company acquired, effective June 30, 1973, 100% of the issued and outstanding preference and common shares of Refrigeration Certified Maintenance Company Limited, a company engaged in the servicing and construction of air conditioning systems. The acquisition was made for cash at a price which included an excess of \$54,000 over the net value of its tangible assets. The excess is included in the account "Goodwill and other intangibles". Management has not adopted a policy of amortizing intangibles.

3. Fixed Assets

	<u>1973</u>	<u>1972</u>
Fixed assets at cost		
Land and building	\$ 759,240	\$ 743,332
Machinery and equipment	199,398	193,097 *
Vehicles	395,374	298,658
Office furniture and equipment	218,706	205,088 *
Leasehold improvements	<u>12,766</u>	<u>12,766</u>
	1,585,484	1,452,941
Less accumulated depreciation and amortization	<u>476,693</u>	<u>383,666</u>
	<u>\$ 1,108,791</u>	<u>\$ 1,069,275</u>

*As reclassified

In 1973 the Company changed (except for cars and trucks) from the diminishing balance basis of providing depreciation at maximum rates allowed for tax purposes to the straight line basis at appropriate rates applied to original cost. Management believes this will result in a fairer allocation of original cost over the useful lives of the assets. The effect of this change upon net income for the year is not significant.

4. Long-term Debt

Long-term debt is secured by a 6% mortgage on the building, repayable in monthly instalments of \$1,710 combined principal and interest, with the balance maturing in 1984.

5. Share Capital and Stock Options

At December 31, 1973, 25,850 shares were reserved under the stock option plan, of which the following remain allocated, exercisable at \$5.80 per share:

<u>Number of Shares</u>	<u>Year Granted</u>	<u>Year of Expiration</u>
8,700	1969	1974
4,250	1971	1976

6. Directors' and Senior Officers' Remuneration

The aggregate remuneration paid or payable by the Company to the directors and senior officers during the year ended December 31, 1973 amounted to \$194,960.



ENGINEERING

DIRECTORS

William H. Harper, P.Eng., Toronto, Ont. *†
Chairman and President

James L. Attwood, P.Eng., Toronto, Ont. *
Executive Vice President

Charles E. Bell, P.Eng., Toronto, Ont.
Account Executive

Lawrence L. Bell, Toronto, Ont. †
Former Partner
Richardson Securities of Canada

Gerald E. Blair, P.Eng., Toronto, Ont.
Vice President

Augustus S. Dover, Toronto, Ont. †
Former General Manager
Paper Mill Division
Continental Can Company
of Canada Limited

Colin Hersh, P.Eng., Toronto, Ont. *
Executive Vice President

William L. Rootham, P.Eng., Milwaukee, Wisc. †
Corporate Vice President & General
Manager — Johnson Division,
Johnson Service Company

* *Member of the Executive Committee*
of which Mr. Harper is Chairman

† *Member of the Audit Committee of*
which Mr. L.L. Bell is Chairman

OFFICERS

William H. Harper, P.Eng.
President

James L. Attwood, P.Eng.
Executive Vice President
& Secretary

Colin Hersh, P.Eng.
Executive Vice President

Gerald E. Blair, P.Eng.
Vice President

TRANSFER AGENT & REGISTRAR

Canada Permanent Trust Company
Toronto, Halifax, Winnipeg, Calgary
and Vancouver

AUDITORS

Touche Ross & Co.,
Chartered Accountants
Toronto, Ontario

BEAVER ENGINEERING LIMITED

Head Office

70 Queen Elizabeth Blvd.
Toronto, Ont. M8Z 1M4

Wholesale Division

45 Cranfield Road
Toronto, Ont. M4B 3H6

Gas Services

45 Cranfield Road
Toronto, Ont. M4B 3H6

Branches Brantford, Dartmouth, Hamilton, London, Windsor

Depots Barrie, Belleville, Kitchener, Moncton, Ottawa, Sault Ste. Marie, Sudbury, Sydney



ENGINEERING

SIX YEAR SUMMARY

	<u>1973</u>	<u>1972</u>	<u>1971</u>	<u>1970</u>	<u>1969</u>	<u>1968</u> ⁽¹⁾
<i>Operations (in thousands of dollars)</i>						
Sales	\$13,501	\$9,965	\$7,938	\$8,569	\$6,360	\$5,343
Net Earnings	467	347	305	429	321	246

Common Stock (based on 602,150 shares outstanding) (in dollars)

Earnings per Share	.78	.58	.51	.71	.53	.41
Dividends per Share	.14	.14	.14	0	(2)	(2)
Book Value per Share	4.71	4.07	3.63	3.26	2.42	0.96

Balance Sheet (in thousands of dollars)

Facilities — Net	1,109	1,069	902	793	737	116
Depreciation Provided	135	132	91	67	53	22
Purchase of Fixed Assets	144	276	200	99	674	52
Working Capital	1,740	1,462	1,353	1,294	856	396
Shareholders' Equity	2,835	2,452	2,188	1,966	1,462	579

(1) Completed contract basis. All other sales are shown as a percentage of completion basis.

(2) Dividends were paid in these years, but they were applicable to the shares of the predecessor corporations prior to the statutory amalgamation which formed Beaver Engineering Limited in 1969.



ENGINEERING

HEAD OFFICE: 70 Queen Elizabeth Blvd., Toronto, Ontario M8Z 1M4